OPENING STATEMENT BY THE REPRESENTATIVE OF FINLAND

1. When we met here a year ago growth of production had almost ceased in Finland and unemployment had reached disquieting dimensions. The balance of payments was showing a persistent deficit and the foreign exchange reserves had decreased to a point which was arousing much concern. It was evident that the Finnish economy was in that state of fundamental disequilibrium, which according to the articles of agreement of the International Monetary Fund, justifies a devaluation of the currency unit. As you will recall it was decided, with the concurrence of the Fund, to reduce the gold value of the Finnmark by 23.8 per cent, with effect from 12 October.

2. The most immediate aim of the devaluation was to reduce the deficit in the balance of payments, which had forced the Government and the Central Bank to pursue restrictive fiscal and monetary policies since 1965. At the same time devaluation represented an attempt to provide scope for a new growth and development policy and for the structural changes necessitated by increasing international competition.

Developments since devaluation

3. It was understood from the very beginning, that in order to achieve the aims of the devaluation and to safeguard its success other measures were also necessary, above all to stabilize prices and wages and thus check inflation. The prevailing situation was rather unfavourable in this respect for the collective wage agreements in force, as well as various financial and other agreements and contracts, had index linkages, which seemed likely to cause a dangerous cost spiral as a result of the inevitable rise in prices following the devaluation.

4. Some of the measures which were taken at the same time as the devaluation were discussed during these consultations a year ago, soon after the event. These measures comprised the temporary Export Levy Act, a partial price regulation and the decision to discontinue the requirement of cash payment for certain imports and to abolish duties on commodities on the so-called "décalage" list of the FINEFTA Agreement. In addition, from the beginning of the year, the travellers' right to purchase foreign exchange was raised to Fmk 1,000 per person per trip regardless of the country of destination (earlier the limit was Fmk 400 for trips within Scandinavia and Fmk 800 to other countries).
5. The purpose of the temporary export levy was to sterilize part of the sudden increase in income from exports and thus to restrain increases in costs. It was decided to use funds thus accruing for basic investments indispensable for the promotion of structural changes in the economy. The export levy, originally 14 per cent, has been reduced both generally and for certain specified commodities, especially those with a high import content. Since 30 August 1968 the highest export levy percentage has been 8 per cent and the average 6 per cent.

6. By 23 October Fmk 459 million had accrued on the special export levy account at the Bank of Finland. Of this amount Fmk 121 million had been used for investment purposes as specified in the Act. According to a 1969 budget proposal of the Government, which was submitted to Parliament at the beginning of October, the total amount to be collected through the export levy is Fmk 650 million.

7. The most important of the necessary measures and the hardest to attain was, however, the institution of an incomes policy through which the impending cost inflation could be avoided. Extensive incomes policy negotiations were thus inaugurated soon after the devaluation.

8. After a series of lengthy negotiations a comprehensive agreement on prices and incomes was drawn up and approved at the end of March by the various organizations concerned. This agreement can, with good reason be regarded as a very significant milestone in a Finnish incomes policy.

9. The wage increases to be affected in 1968 were not tackled in the agreement. However, the index clauses in the contracts in force at that time, which provided for an upward adjustment of wages at the end of 1968, were removed. It was, moreover, decided that wage increases in 1969 should be kept in line with the expected increase in productivity. At the beginning of 1969 wages will consequently be raised by 16 penniä per hour throughout, which roughly equals a 3.5 per cent average increase in wages. As regards the prices of agricultural produce, it was agreed that there should be a 2 per cent increase in June 1968.

10. In order to realize this agreement it was necessary that most of the other index linkages should also be abolished and that the Government be authorized to control prices, rents and wages. The Economic Special Powers Act, providing the Government with the extensive powers necessitated by the contract and required for the execution of the stabilization programme 1968-1969, was passed by a large majority in the Diet. The Act made the prices and incomes policy agreement binding on all pressure groups.
11. The main provisions of the above Act, also known as the Stabilization Act, are as follows: index clauses in all agreements based on changes in various price indices are - with few exceptions - abolished insofar as they affect the period after the enforcement of the Act. The index clause will not automatically be reintroduced in agreements after the expiration of the Act, i.e. at the beginning of 1970.

12. With respect to lending, it is forbidden to demand interest or other compensation in excess of that applied by publicly supervised banking and insurance institutions. The presently applied interest rates are on average 7.5-8.5 per cent with a maximum of 10 per cent. The banks may, however, impose 1 per cent additional interest until the index compensation payable on deposits has been covered. As regards index-tied deposits, made before the Act came into force, the index clause may continue to apply until the end of November 1968.

13. The Stabilization Act authorizes the Government to supervise and control fees, prices, rents and wages so that wage increases are kept within the limits laid down in the prices and incomes policy agreement. A National Council for Prices and Wages, which includes representatives from the various interested organizations was established by cabinet decision for that purpose.

14. It is perhaps still too early to try to judge to what extent the targets set have been achieved by the devaluation and consequent measures. Some observations may, however, be made. One of the most promising results is that the first round of price increases following on the devaluation has levelled off; the rise in the cost of living index for instance was only 1.4 per cent from April to September this year as against a rise of 7.1 per cent from September 1967 to April 1968. Moreover, the Finnish authorities are confident that the price level will also remain fairly stable in 1969. The agreement on price recommendations for pulpwood, made by the representative organizations of the private forest owners and the wood-processing industry, will contribute to this end. The agreement covers two consecutive felling seasons, and the recommended increases in stumpage prices are quite moderate.

15. In comparison with the favourable price developments, productive activity has been slow in gaining strength. Of the main demand components, private consumption expenditure has remained, in real terms, at roughly the same level as last year, whereas the volume of private investment was on the decline during the first half of 1968. Despite an improved performance in exports the real increase in total production will remain quite small, about 2 per cent in 1968 or the same as in 1966-1967. It is for this reason that the employment situation is so alarming, taking into consideration the seasonal variation as well. Thus, in winter 1967-1968 the rate of unemployment was close to 5 per cent and it seems likely that the situation this winter will be almost as difficult as that last year.
16. The Government's proposed budget for 1969 is in line with the stabilization agreement, according to which no tax increases were to be introduced and borrowing was limited to the previous preceding budget's fairly low total of Fmk 550 million. As a result of these budgetary limitations it has been necessary to sharply restrict growth in expenditure. However, appropriations for such essential purposes as the development of higher education and financing of residential building have been increased. An evaluation of the general economic effects of the budget shows it to be characterized generally by neutrality. Care has been taken to make provision for the recovery of private investment, e.g. through an easing of the financial markets. In addition it should be pointed out that the greater part of the export levies budgeted for 1968 will be available for use in 1969.

17. As regards the future prospects of productive activity, the Finnish authorities are fairly confident. Private investment activity is anticipated to become quite brisk in 1969 due to the improved liquidity position of the banks, increased profit expectations of enterprises and measures taken by the Bank of Finland and the Government to advance finance for residential and industrial construction. Also, commercial fellings are expected to expand considerably, mainly as a result of the agreement on stumpage prices. If the growth rate of exports continues to be as high as is expected - about 10 per cent in real terms - real gross national profit in 1969 could reach a level 6 per cent above that for this year.

Balance of payments

18. As stated above, the most immediate objective of the devaluation was of course to strengthen the external balance of the country and to create conditions conducive to a more permanent external equilibrium. In this sector the results have without doubt been more favourable than in domestic production.

19. The Finnish authorities are satisfied to observe that developments in the current account have so far corresponded quite closely to expectations. Thus it was foreseen last autumn that the improvement in the balance of trade would occur gradually after a certain time lag. By the end of September this year accumulated Finnish exports actually exceeded the value of imports for the first time in ten years. According to our estimates, however, and as indicated by the September trade figures, there will be an expansion of imports in the last quarter so that the end result will be approximate equilibrium in the trade balance for the year as a whole.

20. Net invisible earnings have also developed rather favourably in 1968 with the surplus almost doubling during the first half of the year compared to the corresponding period 1967. Improvements have occurred mainly on tourism and transportation accounts, while the net deficit in transfer payments increased as a result of higher debt servicing expenditure.

21. According to our forecasts, the year 1968 will show a small surplus on current account compared to a deficit of Fmk 490 million in 1967.
22. Moving to capital account, it may be observed that net long-term capital imports during the first half of 1968 amounted to Fmk 170 million; the bulk of borrowing abroad consisted of medium-term financial loans. Short-term commercial credits increased substantially (by some Fmk 450 million) during the first half of the year. This resulted in the main from the abolition in January 1968 of the rule requiring cash payment for certain imports.

23. The foreign exchange reserves roughly doubled during the first nine months of the year largely reflecting the growth in the short-term capital inflow. In view of the expectation that the current account will remain in equilibrium, that projected long-term capital imports will no more than balance amortizations (including the voluntary repayment of the second credit tranche to the International Monetary Fund in July) and that the stock of short-term commercial credits had reached a "normal" level by mid-year, there seem to be hardly any changes in Finland's foreign exchange reserves during the latter part of 1968.

Trade policy

24. In her trade policy Finland has continued to promote the liberalization of foreign trade. As a result of the Kennedy Round negotiations, tariff reductions on tropical products and some other items of special interest to developing countries were put into effect at the beginning of this year.

The first two fifths of the general Kennedy Round reductions came into effect on 1 July 1968. In connexion with devaluation, it was also possible to unilaterally abolish, within the framework of the FINEFTA Agreement, duties on commodities on the so-called "décalage" list, as mentioned above.

25. As regards the elimination of quantitative import restrictions, at the beginning of the year Finland removed her remaining quantitative import restrictions on industrial products that had been permitted under the FINEFTA Agreement. This liberalization was extended to imports from all countries under the multilateral import treatment system. Furthermore, on 1 July 1968, Finland eliminated quantitative restrictions on the importation of certain products as agreed during the Kennedy Round negotiations. This measure of liberalization was also extended to cover imports from Finland's bilateral trade partners. The remaining global quota programme for 1968 consists of eleven such quotas as against twenty-one in 1967 and amounts to Fmk 104.4 million, while the corresponding figure for 1967 was Fmk 382.5 million. At the moment 95 per cent of imports from multilateral countries have been liberalized.

26. The bilateral trade and payments agreement between Finland and Colombia ceased to be effective from 1 January 1968. Presently, our foreign trade only with the Eastern European Socialist countries with the exception of Albania and Yugoslavia, and with the People's Republic of China is maintained on a bilateral basis.
Conclusion

27. From the point of view of the balance of payments I think one could say that developments since the devaluation have been in line with our objectives. This has occurred notwithstanding the considerable liberalization of imports introduced at the beginning of the year and the further tariff reductions implemented in July in accordance with our commitments under the Kennedy Round agreement.

28. When evaluating our present position, Mr. Chairman, it is important to realize that Finland's gold and foreign exchange reserves are still below the levels achieved in the early 1960's and internationally speaking they are small in relation to our trade. Looking more closely into the reasons for the recent strengthening of our reserve position a number of elements can be distinguished. The change in domestic prices relative to those on world markets effected through the devaluation has, of course, worked in favour of our domestic suppliers. However, a major part of the increase in reserves resulted from a reversal of leads and lags of a short-term character. Due to rather favourable conditions recently on the international capital markets it has also proved possible to expand medium- and long-term capital imports to some extent and thereby add to our reserves. Unfortunately, a considerable part of the increase in our foreign exchange reserves is also due to the long recession in production and especially the decline in private investments.

29. Looking ahead into the 1970's it is obvious that our international margin for economic expansion will remain extremely narrow. Devaluation has not eliminated the structural weaknesses of the Finnish economy. Balanced growth will require a continuous improvement of the allocation mechanism and success in our endeavours to adapt Finland's industrial structure to the conditions of economic integration and international specialization. It is self-evident that, in addition, provision of an international margin sufficient from the point of view of growth policy, necessitates continuous development of our incomes policy. In this respect we are facing basically the same problems as before. In these circumstances, it is evident that any radical changes in our present import system would alter the foundation on which our policies for balanced growth have been built, and thereby jeopardize the attainment of our objectives.